

Guarantee All U.S. Payrolls Now to Prevent a Depression

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In order to prevent mass unemployment and a new Great Depression, the U.S. government should immediately announce a blanket guarantee that all payrolls in the U.S. will be met for at least the next three months.

The Conservative UK government announced just such a policy on Friday. Under its “Coronavirus Job Retention Scheme” *any* employer (small, large, for-profit, non-profit) can get an immediate grant from the UK Treasury to cover up to 80 percent of the salary of all retained workers, up to \$2,900 (£2,500) per month, a level just above the median income of \$2,850 (by comparison U.S. median income is about \$2,600 per month so an equivalent program would guarantee up to \$2,650 per month). The UK program will backdate payments to March 1st and will be available for at least 3 months and extended if necessary. The UK’s Chancellor placed no limit on the scheme and said, “We will pay grants to support as many jobs as necessary.”

Of the many policy responses required, a payroll guarantee is the most important, urgent and most likely to be effective, as it will provide businesses confidence that they can meet their payrolls and keep people employed. Keeping people in employment, whether they are still working or idled in the lockdowns, is essential to keeping income flowing through the economy and enabling the possibility of a relatively rapid recovery once the virus is defeated.

Without an immediate payroll guarantee the likely outcome is a multi-year depression as employment and incomes collapse in a vicious cycle. There is evidence that this is already happening – last week unemployment claims jumped to 281,000 per week, equal to the peak during the 2007-9 recession, and estimates are that this week will see over 2 million new claims. Work by our group estimates that U.S. consumption will drop by 18 percent in Q2, a scale and speed that exceeds what was experienced during the Great Depression.

Keeping people in employment and keeping incomes flowing through an economy-wide payroll guarantee is the only way to prevent such a collapse. Fed actions to cut rates and provide emergency liquidity will help buttress the financial system but will not work their way through the economy quickly enough to prevent collapse. Likewise, Federal and State actions to extend sick-pay, unemployment benefits, and cut taxes, are all necessary, but are also insufficient. Once people have been laid off it is too late – even with unemployment benefits or a temporary Universal Basic Income scheme, worker incomes would drop significantly, causing a downward spiral of spending and production in the economy. Furthermore, there would be huge frictional

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costs and delays in re-hiring once the lockdowns are lifted, and little appetite to re-hire in the face of weak demand.

Most businesses want to keep their workers employed but are facing severe cash constraints forcing layoffs. Standard mechanisms such as emergency business loans and grants, while also necessary, are too slow and indirect to stop the employment drop. Many businesses may be forced to shed employees before receiving help from such programs, and even if they do receive help, may use the funds for other purposes, such as paying rent or suppliers, while still laying off workers.

A complete package for keeping workers in employment and businesses solvent is needed. The UK measures announced Friday provide a useful starting point for a U.S. program:

- **Payroll Guarantee** – In the UK, any company can designate workers as “furloughed” (idled but still employed) and submit the workers’ information via an online portal; the UK Treasury will then reimburse 80% of wages up to £2,500 (\$2,900) per month.
- **Tax holidays and deferrals** – One of the fastest ways to help businesses with cash flow is through taxes. In the UK, certain taxes, especially those impacting small businesses and key sectors (e.g. retail, hospitality), will be temporarily suspended during the crisis period, while payments for other taxes will be deferred.
- **Sick pay relief** – The UK government will reimburse up to 2 weeks of sick pay costs due to COVID-19 for small and mid-size businesses
- **Loans and grants**—A series of loan and grant programs to help affected businesses, including immediate cash grants for small businesses and those in the most affected sectors, a guaranteed loan scheme for mid-size businesses, and a Corporate Financing Facility for large companies from the Bank of England.

A similar package in the U.S. could do much to restore confidence and break the downward spiral of job losses, income losses, and business failures that has started. Such a package would be *in addition* to other measures such as increased/extended unemployment benefits and support for self-employed workers who would not be covered under the payroll guarantee.

Some will question the costs of such unprecedented measures and the impact on the U.S. budget deficit. While in normal times such concerns may be warranted, these are not normal times. The U.S. and world economy are undergoing a violent contraction unseen outside of wartime. The U.S. is in the fortunate position of being able to borrow in its own currency for near zero interest and could issue long-term (e.g. 50-year) COVID Bonds (like war bonds) to fund the massive response needed. Investors would find such long horizon bonds a useful safe-haven asset, the Fed could buy them as part of its program to support the economy, and they would create very little long-term fiscal drag once the crisis passes and growth returns.

The public health battle will eventually be won and the virus will be defeated—the battle to save jobs and the economy must do no less.